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Governor Baker Addresses Progress and Future of MBTA Reforms as Fiscal and Management Control Board Completes First Year

BOSTON -- Governor Charlie Baker today delivered remarks regarding the reforms, progress and future of the Massachusetts Bay Transit Authority (MBTA) as the agency's Fiscal and Management Control Board (FMCB) completes the first year since its enactment in 2015. Remarks as prepared for delivery:

"Good morning. It's been a year since the Fiscal and Management Control Board of the MBTA met for the first time.

"We've all learned a lot. And done a lot. But much more remains to be done.

"This story began about 18 months ago – 20 days after we took office.

"For 30 days – from the end of January, 2015 through the end of February, it snowed. Nine feet in all. The T stopped running for a week. And then staggered forward for the next several months. An expert panel did a quick, but thorough, review on what happened, and they concluded – and I quote – 'The catastrophic winter breakdowns were symptomatic of structural problems that require fundamental change in virtually all aspects of the MBTA.'

"Their 9 key findings – just words on page 6 of their April 2015 report – have proven to be profoundly prophetic:

“The T has an unsustainable operating budget,

“Has been unable to spend available capital dollars, and therefore underinvests in its core system,

“Struggles to get projects of all types out the door,

“Has weak workplace customs and practices,

“Has a shortsighted expansion program,

“Is hobbled by frequent leadership changes and organizational insularity,

“Lacks customer focus,

“Has flawed procurement and contracting processes,

“Is not accountable to the Governor or the Legislature, even though the state funds more than half its operating budget.

“What they did not say is that the T was underfunded. It wasn't. It isn't. It won't be.

“What it was, was poorly led and horribly managed. There are a lot of terrific people working at the T. But it was still broken.

“Thankfully, the legislature responded to this crisis by supporting our call for the creation of the Fiscal and Management Control Board, and a number of other key operational reforms.

“They incorporated them into FY 2016 budget, which I signed into law in mid-July of last year.

“Here's what we've learned and what we've done since then:

“The good news? Every day, the T manages to safely move over a million riders from where they are to where they need to go. And there is spectacular room for improvement.

“The bad news? The T was in – and is still in – very tough shape. As time went by, and one incredible – almost unbelievable – story after another landed on top of us, I turned to Steve Kadish – a guy I had worked with on the Harvard Pilgrim turnaround

in the late 1990s – and said something I thought I would never ever say: ‘This place is in worse shape than Harvard Pilgrim was in back in 1999 when it went into receivership.’

“There is very little 21st century business process. Procurement is on paper. One very large vendor told Brian Shortsleeve that he would be happy to give the T a discount, but only if the T ordered off their website like every other enterprise customer in North America.

“Benefits enrollment is on paper. The process by which bus drivers pick which routes they will drive is on paper – even though software was purchased years ago to automate the process. Supervisors at bus garages enter data on who is or isn't working, dropped trips, etc. on handwritten 11 by 17 sheets of paper every day. Since the T keeps those paper records for years, at some garages they are actually stored in trailers, since there is no room in the bus garages to store them.

“Turnarounds –and this is a turnaround – take years. The first step is usually about putting out immediate fires. Grabbing low hanging fruit. And stalling the downward slide into the abyss. Step Two is about cranking the crank. Climbing back up the hill. Creating positive movement where there is none. And Step Three is usually when the work of steps One and Two starts to create real momentum. We have a very long way to go. We are at the start of Step Two.

“So let’s talk about some of the fires.

“The T’s operating expense had gone up 5% per year for the past fifteen years – far faster than the rate of inflation – with virtually no increase in ridership. It was more expensive than virtually every other transit system in the country, and its budget only worked going forward if the Commonwealth wrote bigger and bigger checks to support it.

“Thankfully, the T flatlined the year over year growth in its operating budget this past year – delivering FY 2016 at virtually the same cost as FY 2015. First time in almost 20 years. This does two things. First, it limits the draw on state government resources that goes beyond the \$1 billion from the sales tax, the \$187 MM in annual contract assistance and \$160 MM from cities and towns. Second, it begins to make it possible for the T to invest operating savings in pay as you go capital projects.

“Second, for years, the T never spent its allocated capital budget. Think about that. All this very old infrastructure, and the T was never able to spend all the money it had to upgrade it.

“For the next five years, the T will double the \$\$ it spends on signals, switches, tracks, power systems, cabling, trains and buses. This deficiency is where many of the T’s reliability problems come from. Under Jeff Gonneville’s leadership, the Operations folks do a magnificent job of recovery every single day. But they are working with signals, switches, cables and power systems that are older than I am, and in some cases, older than my dad.

“Third, the T’s administrative processes are light-years behind the times.

“The T’s history of not managing overtime and unanticipated absences is well known. Its FMLA certification in 2015 was three times higher than other state agencies. On bus service alone, this led to 40,455 dropped bus trips last year.

“For the first six months of 2016, operator absenteeism is down nearly 25% and total overtime expense is down by over 30%. Weekday dropped bus trips are down by over a third – which means the number of bus trips during the first six months of this year is up by almost 9,500 rides over last year. That’s progress. But the T’s usage of 5 or more days of FMLA rate is still twice as high as the executive branch.

“Much of what the T buys, the state already buys, usually with better prices and terms. But the T has underutilized the state’s contracts.

“Going forward, the T will use state contracts to purchase millions of dollars worth of goods and services – thereby saving time and money every single year.

“The T’s recent history on major procurements has been underwhelming. Almost everyone has its own major problems and requires after the fact fixes. Locomotives. The Commuter Rail contract. The Green Line Extension. Phone and wireless service, and Parking lots, just to name a few.

“We suspended the Green Line Extension and completely redesigned it, saving the T almost \$1 billion. Version 2.0 is now before the Feds for their review. Hundreds of unused – but paid for – wireless devices were shut off, saving \$500,000 a year. The commuter rail contract has been renegotiated, incorporating key elements that were missing before, and focusing on customer experience. Advertising procurements have been revamped, and annual revenue jumped by over 30% year to date. That includes an innovative digital advertising program that has resulted in over 100% growth in digital revenue.

“Fourth, unlike other transit systems in America, the T has never been able to reconcile cash to calculated collections, and its money management process contains serious risks. In fact, someone cut sunroofs into two of the armored trucks used by

the T to transport money, the doors to the money room were rarely locked, no one wore the required uniform, and lunch boxes were never inspected.

“All of the issues raised by the audit that was done are being addressed for the near term and the T plans to contract this service out to a firm that focuses on moving and managing cash.

“Fifth, the T’s warehouse is a colossal underperformer – delivering parts 4 or more business days after the order – while other suppliers deliver parts in less than a day. Other systems can match actual inventory to purchased inventory 95% of the time, while the T can only do it 56% of the time.

“The T plans to put this out to bid soon duplicating the service model used by almost every other public transportation system in the country.

“Sixth, its pension system is in freefall. A \$1.5 billion system with a \$1 billion shortfall that is losing \$89 MM a year in assets. This really shouldn’t be a surprise, since eligible employees paid in \$47,000 in contributions, and take out \$1.65 MM in pension and healthcare benefits. After its recent round of reforms, new employees will contribute \$67,000 to take out \$1.49 MM in benefits. Still a huge problem.

“We believe the T’s pension system cannot survive as a standalone entity, and will be recommending it be managed by the state’s PRIM system when the legislature returns in January.

“Seventh, the T lacked many of the basic management reports and daily metrics of operation that would be necessary to determine how the system was doing in meeting the needs and expectations of its riders.

“Much work has been done to build daily dashboards and operating metrics for workers, managers, and riders. There is far more public information for riders than there used to be, and much more reliable and useable metrics for T staff. But more needs to be done here, and additional work is under development.

“Eighth, the T was not prepared for any winter in 2015, much less the winter we had. The third rail on the Red and Orange Lines was in terrible shape, its snow removal equipment was decades old and in disrepair, and no one had inspected the heating coils on the third rail for a long time.

“The above ground third rail has been replaced, dozens of attachable snow plows have been acquired, and a number of supersized, free standing snow plows have also been purchased. We were so ready for winter in 2016, Mother Nature gave us a

pass. I fully expect to see her again in 2017.

“Finally, for the first time in a long time, the T is being managed. New leadership is in place. A new General Manager, Chief Administrator, Chief Operating Officer, Chief Financial Officer and Chief Procurement Officer. There is a Chief Technology Officer for the first time ever. In both the warehouse and the cash room, executive managers -- not union members, but managers accountable to the General Manager -- have been put in place.

“A third party leave administrator has been hired, so that when employees call in for leaves or unscheduled absences, their requests will be processed by specialists, not by a foreman or a supervisor – who needs to focus on running the system.

“The T is being governed by a board that is not a rubber stamp. In its first year, the FMCB met 52 times and staff made 274 presentations. The FMCB conducted its oversight in the glare of the public and media, and opened every single meeting with public comment sessions, some of which ran over an hour. They are without a doubt the five hardest working volunteers in state government and without them, this past year would not be possible. The FMCB also made tough decisions – cancelling a late night service pilot and raising fares, but changing the fare construct to address equity concerns for bus riders, students and users of The Ride.

“The Ride is a case study in the new approach to decision making. When the FMCB first started meeting, the cost of the Ride was exploding. It forced a conversation about what to do about it. Advocates repeatedly came to FMCB meetings to make their case for a more nuanced approach to solve the problem – beyond cutting service and raising fares. Eventually, they acknowledged the need to save money and volunteered to work with the T toward a specific savings goal of \$10 MM.

“Since then, the T has put in place a new contract for an integrated RIDE call center that will save money and provide better service. It has also launched pilot programs that will save money using taxis and on-demand services that will provide Ride customers with better service – because they will not have to book trips 24 hours in advance.

“The T is also putting safety first. For years, the T failed to meet a federal mandate to install Positive Train Control on the commuter rail system, hoping that no one would enforce a December 2015 compliance deadline that was set years ago. After a horrific crash in Philadelphia made it obvious that PTC was a must, the T put together a finance plan and successfully applied for two different federal loan programs to ensure that the MBTA will be in compliance with the recently-extended compliance deadlines.

“The T had similarly postponed making a decision on how to respond to National Transportation Safety Board findings from two Green Line collisions. The new five year capital plan includes funding for a needed Green Line collision avoidance system.

“The T is also becoming more nimble. On June 24th, a fire on the Longfellow Bridge in a power cable occurred around two o’clock in the morning. Had that fire occurred in 2015 rather than in 2016, the T would have run buses instead of the Red Line for the morning rush hour, and then acted to repair the damage. And the buses would have run from Harvard Square to Broadway, due to a combination of how the power system is segmented and where Red Line trains can turn around. And it would have been a mess.

“Instead, cable repairs began immediately, and a bus bridge was put into place. The buses only had to operate from Kendall Square to Park Street, because the T had installed relatively simple traction power supply switches, which allow shorter segments of the Red Line to be shut down at any one time.

“And the repairs were done so efficiently, the entire Red Line was operational by 7 AM.

“So what’s up for this year? Much of it will focus on more of the same – and it should.

“Aggressive focus on operating expenses and operating performance. Any savings can and will be plowed back into pay as you go capital investments or other opportunities to improve rider experience.

“The T has to deploy available capital funds and invest in its infrastructure. More specifically, it needs to reinvent design and construction processes to deliver more projects on time and on budget and performing as expected.

“Bid out the money room and the warehouse to determine if the T can both save money and improve performance. All indications about market standards suggest the answer to both questions will be yes.

“Don’t be afraid to change how services are delivered and vehicles are maintained. Actively seek out private partners – even let them make unsolicited proposals – to help the T find new and smarter ways to deliver for its customers.

“Find some more talented people to manage some of its critical functions. The FMCB

and the Mass. Taxpayers Foundation have both indicated that the T does not have the managerial depth it requires to deliver on its stated agenda.

“Improve service in ways that customers can see. There is too much work to be done at the T to expect gigantic service improvements immediately, but there are things the T can be doing every day to improve operating performance and the reliability of its services.

“One final thought. There are many talented, committed and dedicated people working at the T. They have been badly let down by a culture from the top of the organization to the bottom that has allowed the T to deteriorate – operationally and financially – over a long period of time.

“Climbing out of this mess will take time and tons of work. On that we can all agree. But it will also take a change in attitude at every level throughout the T. On almost every benchmark imaginable, the T underperforms against its peers. Peers that have the same unions and in many cases, very similar tasks and equipment. The T is among the few state agencies left in Massachusetts where people routinely get paid overtime even if they work less than 40 hours a week.

“I don’t care if a service is provided publicly or privately. What I care about is performance, productivity and ensuring the money riders, taxpayers and cities and towns pay in to the system is well managed. The old way of doing things at the T is no longer viable or sensible.

“Everybody wins if the T delivers a reliable, dependable, affordable service to the region’s riders. Everybody wins if the T gets its act together operationally and financially. And everybody wins if the T takes the task of becoming a 21st century public transportation system to heart, and works hard to learn from each other, and from its peers.

“Thanks very much.”

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